



Joe Studwell, The China Dream. The Elusive Quest for the Greatest Untapped Market on Earth

London, Profile Books, 2002, 359 p.

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NOTE DE L'ÉDITEUR

Translated from the French original by Nick Oates

- 1 IN TWELVE clear, concise and well argued chapters, Joe Studwell delivers a methodical deconstruction of the myth surrounding the China market that haunts the minds of governments and the heads of large corporations in the West to the point of obsession. Drawing on a well sharpened sense of the formula, as well as on relevant sources for his arguments, the author reveals to what extent the China market risks continuing to deceive a good number of Western investors, as has been the case on repeated occasions since China and the West first made each other's acquaintance. The author explains with brio the psychological and economic incentives that drive Western investors to put colossal sums into a market that has not ceased to disappoint them, and we discover a mixture of amnesia and lack of critical sense regarding the political and economic situation on the part of Western business circles and governments.
- 2 In the first part of the book, Studwell devotes himself to describing, both from the perspective of the foreign investor and from that of the Chinese government, how the idea of an economic miracle took shape from 1978.
- 3 On the part of the foreigners, the author records the different postures in crisp fashion. We are presented with those who do the calculations over again — which subsequently prove suspect, without this being said loud and clear —, such as Larry Summers who, before joining President Clinton's team, applies in a study by the World Bank a calculation of purchasing power parity that allows China to triple its per capita revenue

by the wave of a magic wand, thus entertaining the promise of a massive solvent internal market. Then there are the professionals in the creation of myths and markets, such as the American investment bank Goldman Sachs and other financial players, who try to convince investors of the imminence of an exponential explosion of the China market. Next we find a very particular category, that of the intermediaries who expound on “the Chinese complexity”. These agents are sometimes the same as those players in the second category, or sometimes even political actors who are “friends of China”, in the image of a Kissinger who cashes in on his relations with the Chinese political elite to the tune of hundreds of thousands of dollars. Finally, there are those at the heart of big corporations and governments who succumb to the myth by investing hundreds of millions of dollars without really taking the time or the energy to decrypt China’s economic and political realities.

- 4 Several categories of players can also be discerned on the Chinese side. There are of course the intermediaries, who, moreover, are often working for the myth creators among the ranks of the foreigners. But it is above all the Chinese government that has been able to perpetuate the image of an El Dorado. Studwell explains how the Chinese leadership has handled, with no little skill, several public relations tools: colossal real estate investments that sometimes, however, house veritable “Potemkin’s villages”; the strict control of information concerning the political and economic situation; statistics that are simply lies; or even indeed a capacity to get the CEOs of multinationals and heads of state to depart from their daily routine during their sumptuous visits on Chinese soil. Studwell demonstrates perfectly how the myth of the China market reproduces the image of all speculative phenomena. It is created and it develops in relation to the expectations of different actors, in part disconnected from the reality, and who have a common objective: to earn lots of money very quickly.
- 5 The second part of the work looks at the tomorrows that bring disillusionment. With a few exceptions, since 1994 the big foreign companies have been waking up with a hangover and it is beginning to dawn on them, following the exuberance of the early 1990s, that the returns on their investments will be several degrees removed from what they had banked on. Studwell pertinently explains how their projections have been cut down to size by highly unreliable or manipulated statistics and by the perpetuity of an all-pervasive bureaucratic system in the economy that limits the development of the activities of foreign investors (and private Chinese companies, come to that). And yet the author reveals how these same enterprises are on the point of committing the same mistakes following the accession of China to the WTO.
- 6 Finally, the last part of the work attempts to offer a more accurate reflection of the reality of the Chinese economy by showing the weaknesses of the country’s economic development since 1978. The author concludes that there is a possibility of a fiscal and banking crisis in the years to come if drastic measures are not taken to change the *modus operandi* of the Chinese economy, in particular with regard to the governance of enterprises and public institutions. International investors are thus forewarned. This is certainly the least original part of the book, even if we find here some interesting ideas on the limits of hybrid property rights of rural collective enterprises, which were responsible, according to some observers, for the Chinese economic miracle, or even on the duality of the Chinese system of production featuring a dynamic sector sustained by private Taiwanese, Hong Kong and Chinese companies operating in very localised coastal districts and which support at arm’s length public and semi-public enterprises

that are clearly collapsing but which nevertheless still account for the major part of the Chinese economy.

- 7 One cause of regret may be that the author has not addressed the important question of the progressive dissemination of know-how and technology throughout the fabric of national industry. Irrespective of the nationality of the investors, the question of knowing whether the national enterprises will gradually be able to climb up the value added chain is critical for future growth. As the Taiwanese experience shows, or even that of Japan or Korea (even if in these two countries the dissemination of foreign technology was conducted by means of technological co-operation rather than by the take-over of majority shareholdings or the creation of factories on national soil as is the case in China), the role of foreign companies is often essential in this process. The author is quick to highlight (p. 226) the fact that China draws little added value from its exports (the difference between the value of imported goods that are assembled and reprocessed and the value of the exported goods), a sign of weak technological competence in the export units, but does not say a word about technology transfers. Few studies have been conducted in this nevertheless fundamental field, and it would have been interesting if the author had dedicated a chapter to it.
- 8 This criticism aside, the work by Joe Studwell offers a salutary description of the economic reality in China. Intended for a wide audience, it is a profitable read for all those who wish to understand the true nature of China's economic development. It is *compulsory and priority* reading for all foreign investors who think they have discovered in the China market a genuine treasure island. Unfortunately, the danger remains that this inventory of the state of affairs will be quickly forgotten: the desire for conquest combined with acute amnesia is omnipresent in business circles. The dream of the China market still has some life left in it and there is thus the risk that it will claim several more victims yet.